

strategies and technologies to shape the bank of the future.

At InterBold — Diebold's joint venture with IBM — we are forming effective partnerships with financial institutions to change old paradigms. In the past year, for example, we worked with one of our bank customers to introduce check-imaging ATMs that have increased consumer confidence and reduced the work involved in processing checks. The combined R&D, marketing and distribution resources of Diebold and IBM put InterBold in an effective position to create, implement and deliver new hardware and software to satisfy changing market requirements. In addition, our modular design philosophy enables our customers to take advantage of new technologies without having to replace entire machines or systems.

Within the next decade, the state-of-the-art technology we develop today will turn into tomorrow's paradigms, which will have to be conquered once again. If you think things have changed a lot in the past 20 years, you ain't seen nothing yet. We will have to be flexible to keep up with the changes in technology and lifestyles, but we also must ensure that the human element does not get buried under the onslaught of new technology.

At the same time, the structure of the financial industry

will continue to evolve. We will see fewer and fewer institutions in the future, but the struggle will become even more fierce as non-bank competitors offer more and more financial products of their own. With consolidation will come the need for more centralization, not only of back-office operations, but also of customer representatives and product specialists. The Virtual Bank will assist in this centralization.

Through careful planning, we have the opportunity today to re-shape our paradigms to serve our future needs. We must not follow the lead of Albert Einstein, who said: "I never think of the future. It comes soon enough." Although Einstein was a brilliant man, he apparently failed to see the advantages of planning for the future, instead of sitting back and waiting for it to happen.

Our children won't sit back and wait. They will establish their own paradigms. As a result, the bank of tomorrow will look significantly different from the way it looks today. However, it still will be dedicated to the same thing it always has offered — reliable service to customers at a desirable cost.

Technology, in whatever form it takes, always has been and always will be a means of efficiently providing that service.

The U.S. Defense Industry

NATIONAL ASSET OR AN ANACHRONISM?

By GERALD A. JOHNSTON, *President and Chief Operating Officer, McDonnell Douglas Corporation*

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IN THE FAMOUS Kitchen Cabinet Debate in Moscow in 1959, Richard Nixon traded verbal blows with Nikita Khrushchev. When the Soviet leader predicted, "Your grandchildren will live under communism," Nixon responded, "Your grandchildren will live in freedom." "At the time," Nixon writes, "I was sure he was wrong, but I was not sure I was right."

Obviously, the world has come a long way in the last three decades — and in the last three years in particular.

Russia and other parts of the former Soviet Union are in a state of turmoil. Anything can happen, including a return to police state rule. Even so, there is cause for rejoicing. Because of changes that have taken place in the last few years, Nikita Khrushchev's grandchildren today have a real chance of living in freedom. So do millions of other people in Eastern Europe and other parts of the world that have lived under Communist rule.

This morning I would like to talk to you about the changing role of the U.S. defense industry in the new post-Cold War, post-Gulf war era. I know that this topic is a special concern to each of you, given the sizable contribution of U.S. defense products in safeguarding not just our own national security, but that of Israel as well.

The basic question before us this morning — and the question that is now before the U.S. Congress and the American people — may be stated as follows:

Is the U.S. defense industry a giant that has outlived its

usefulness? Does this industry — big as it is — continue to serve a legitimate purpose? Or have we become a great dinosaur — capable of destroying anything in our path but incapable of adjusting to changes in the world environment?

Over the last forty years, communist aggression has been the principal cause of conflict around the world. Simply by being there — on the front lines in Europe, the Middle East, and other potential hot spots — our products and services were instrumental in winning the Cold War.

The superiority of U.S.-made weapon systems has been further validated in other wars that have involved real shooting, including the wars that Israel has fought to maintain her existence, and including the recent Gulf war.

But the Cold War . . . and the Gulf War . . . are yesterday's news. Where do we go from there?

Let me begin by laying my biases on the table.

First, I believe the world remains a dangerous place. Recent history teaches us to expect the unexpected. The collapse of the Soviet empire has unleashed a witch's brew of ethnic, religious, and nationalistic rivalries. The old toxins of racism, xenophobia, and anti-semitism are on the loose. Ethnic minorities and foreigners — Croats and Muslims in the former Yugoslavian Republic, Turks and Jews elsewhere in Eastern Europe and Germany — are facing violence and persecution.

Second, I see an ongoing need for a U.S. force structure

that is unrivaled in its ability to project power. For the sake of world peace and stability, the U.S. must continue to be a military superpower — capable of responding on short notice to crises around the world.

Nature abhors a vacuum. The collapse of an established order — even one that is repugnant to any notion of human dignity and decency — creates opportunities for foul play. Radical states have lost a superpower patron with the demise of the Soviet Union. But they are no longer operating under the same restraint of being pawns on a global chess board. The ethnic violence in Eastern Europe today is reminiscent of the period just before World War One, when other long-established empires were beginning to break down.

During the Cold War, competition with the Soviet Union provided a baseline for determining the level of U.S. defense expenditures. Our military planners made decisions on the U.S. Force Structure, down to such arcane matters as nuclear throw weight, based on the best intelligence estimates of Soviet capabilities. Today there is no simple method of basing important planning decisions on competitive analysis.

What, then, is the baseline for measuring sufficiency or superiority in the new era?

For starters, I believe the U.S. should have sufficient forces to mount other operations similar in nature and scope to Operation Desert Storm. Later on this decade or next, we may have to meet similar challenges in the Middle East or other parts of the world. Will we be as well prepared then as we were two years ago?

If you look at current U.S. procurement plans, you see that some gaping holes that are beginning to emerge in our defense posture. And these plans represent what I would call a "best case scenario." In other words, these plans are subject to further cuts.

Many of the same weapons that starred in Operation Desert Storm are scheduled to go out of production in the next few years.

Of the combat aircraft that starred in Operation Desert Storm, the F/A-18 Hornet, made by McDonnell Douglas, may be the only one still in production at the end of this decade. Now it is important to note that it will be a number of years after that before next-generation fighters and other weapon systems can be delivered in quantity.

Operation Desert Storm was an "inventory war" in the sense that the U.S. and allied forces were not forced to step up current production in order to meet the requirement for fighter planes and other weapons. The next time, we may not be so fortunate.

In my estimation, a credible rapid deployment capability for fighting brush fires in distant places is an extremely important requirement; but it is not the only requirement for peace and security in the new post-Cold War, post-Gulf War era.

We also need to develop and build smarter and more capable weapons. While the U.S. is no longer vying with the U.S.S.R. to launch the first satellites or to put the first men on the moon, the fact remains that we live in an age of rapid technological advancement. Inevitably, technology will transform products and services in every industry, including defense. We cannot afford to fall behind other nations — wherever they may be — in critical technologies.

Who is to say that nations that are economic rivals and military allies today will not be rivals in both senses sometime in the future?

I have two proposals to make regarding future defense budgets.

The first is that President-elect Bill Clinton, after consulting with his top military and economic advisers, draw a line that says, "This far but no farther on defense cuts."

While the entire defense budget has been cut, the deepest cuts have taken place in procurement. Normally, procurement accounts for at least a quarter of the total defense budget. But procurement's share of the total budget will be down to only 22 percent in 1995, under current DoD plans. In constant dollars, projected outlays for procurement will be 35 percent lower in 1995 than they were in 1989.

The downsizing of U.S. defense industry cannot go on indefinitely without seriously compromising the ability of our forces to respond to crises in the Middle East and other parts of the world.

Employment in the defense industry has been declining since 1987 . . . and it will continue to fall over the next several years.

Thousands of engineers and scientists and tens of thousands of skilled workers have been forced into the unemployment lines — and more will follow them in the years ahead. Having good people out of work even for a short time is a great waste of human talent and energy. Having the same people *underemployed* once they find work — tied to low-value jobs for the rest of their careers — represents an even greater waste.

This brings me to my second proposal, which relates to national competitiveness as well as to the preservation of a strong defense industrial base.

I call on the new Administration and Congress to set up a special investment fund. With a portion of the funds that have been taken out of the military budget, the fund would invest in high-potential, high-technology projects in civil aerospace.

Over the years, the U.S. aerospace/defense industry has been a font of new technologies that have bolstered our ability to compete in world markets in many industries, including computers and telecommunications.

The U.S. aerospace industry accounts for a bigger portion of U.S. exports than any other industry. Our industry makes the greatest military aircraft in the world. It also accounts for over two-thirds of the world market for commercial aircraft.

But we cannot afford to rest on our laurels. Other countries have already caught up with us in some critical technologies and are closing the gap in others. We need a plan for maintaining a competitive edge in an industry that is critical to the nation's economic vitality. We need a plan, not for "defense conversion," but for "defense transition."

Drawing on the fund that I am proposing, the incoming Clinton administration could rally the nation around major national aerospace projects, much as we did when President Kennedy called us to send a man to the moon and return him safely to earth. That singular call to action in the Sixties galvanized our country. It led to unparalleled technological and scientific growth that continues to benefit us today. It is something we need to do again.

Today we could dedicate ourselves to a program called the High Speed Civil Transport. Aimed at developing a

craft that could fly economically at several times the speed of sound, this one project alone could lead to breakthroughs in many technological fields, such as fuels, propulsion, materials, and manufacturing processes.

Our economic competitors in Europe and Japan are already at work on such a craft. Make no mistake — this craft will be developed by somebody somewhere, and that somebody will reap the benefits of the technological growth and job creations that go along with it.

Similarly, the fund could be used to boost support for the Space Station Freedom project and other related activities that would extend the boundaries of science and space exploration.

As a business man, I think of myself as a pragmatist. To me, the question is not “whether” we in the aerospace/defense industry can deal with declining defense budgets, but “how.” The investment fund I have proposed would re-stimulate our long-term competitiveness at a time of falling defense budgets and slack demand in the commercial aircraft market.

Of course, we, as business people, have to deal with short term as well as the long term. Given the current squeeze, we are looking actively for ways to leverage existing technologies and capabilities.

One way of doing that is by forging alliances with other companies in other countries. A good example here is the collaborative radar integration effort on our AV-8B involving the governments of the U.S., Italy, and Spain. The Harrier II Plus, as it is called, represents a major program upgrade. With a modest investment of U.S. funds, this will provide a major benefit for the U.S. Marines in terms of operational capability.

Another example here is our growing relationship with several leading Israeli aerospace companies — a relationship that has developed with Israel's purchase of many of our products, including the F-4, F-15, Apache helicopter, and Harpoon missile. Israeli companies have demonstrated great competitiveness and creativity in a number of high technology areas, including commercial aircraft components. That makes them great potential suppliers and partners — in our book.

Exports provide another means of leveraging existing strengths. Recent orders from overseas customers have enabled us to extend the lives of two programs, saving tens of thousands of U.S. jobs. Over the last twenty years, exports have accounted for about 30 percent of our defense-related revenues.

It seems to me that the dangers of U.S. arms exports are often exaggerated — while some hard realities are ignored. Do we want to concede the field to the Europeans (and the Russians and Chinese) when it comes to supplying arms to nations that are recognized as U.S. allies — nations, moreover, that face a definite threat from radical governments in their region?

When the U.S. government makes a foreign military sale, our government gains a number of advantages, including interoperability, as we saw recently in Operation Desert Storm. Flying from airports in Saudi Arabia, the U.S. Air Force pilots flying F-15s benefited from the fact that Saudi Arabia was already prepared to support and maintain that aircraft.

While there is cause for concern over anything that would

serve to stimulate a regional arms race, the fact remains that the U.S. Government is able to maintain strict control over the flow of spare parts and the exact configuration of any fighter aircraft that it elects to sell to another nation. That is definitely not the case when the sale is made by European, Russian, or Chinese manufacturers offering aircraft with comparable characteristics.

In summing up, I would like to return to the thought that we still live in a dangerous world — a world of great instability. Moderate governments in every region of this world are depending on continued U.S. military leadership to safeguard their security.

I hope you will join me in opposing any further drastic cuts in defense spending. If we cut defense spending much further, we will wind up with a U.S. Self-Defense Force. That would be disastrous for world peace and stability.

The U.S. may be the only superpower on the scene today, but we cannot afford to carry the entire world — Atlas-like — on our shoulders. For this reason, we should be prepared to help friendly and responsible nations in ways that do not tax our own resources — including the export of modern weapon systems.

No doubt the world would be a safer place without any trade in advanced weapons. But as long as this trade exists, it is in our own best interests — and that of moderate governments around the world — to include U.S. defense exports.

And finally, I have suggested that a special fund be set up in Washington to rally the nation around exciting high-potential, high-technology projects that would stimulate the long-term competitiveness not just of the aerospace/defense industry, but of U.S. industry as a whole.

An old saying has it,

“If you fail to plan, you are unknowingly planning to fail.”

I believe we should be working right now on the projects that are going to enable us to lead and, indeed, to dominate world aerospace in the twenty-first century.

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